Completely Rural Montana Counties Lost Fewer Retail Dollars in 1997

Economic Census data show differences in spending in rural States like Montana. The most-rural counties lose about 40 percent of their retail spending to larger towns and cities, but the effects on local economies are small and stable.

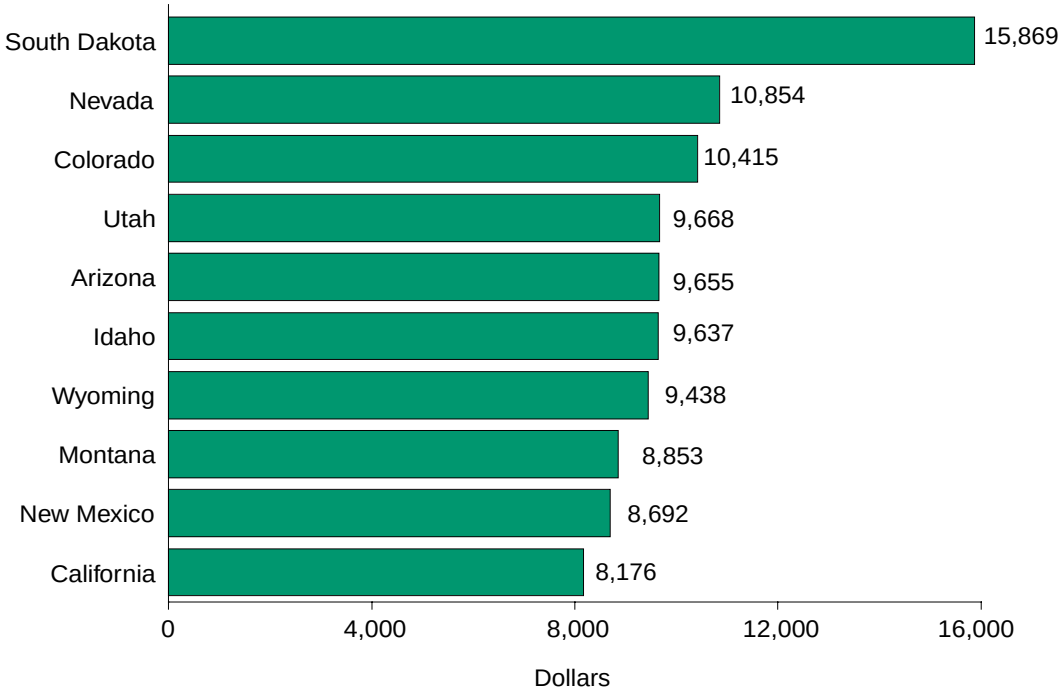
Economic Census data are a rich source of information about geographic patterns of retail trade, a sector that provides about 15 percent of rural jobs. Many rural communities are concerned about the loss of local retail activity to larger towns and cities. Loss of retail trade means not only loss of jobs, but also symbolizes decline of small town "main streets." State and local officials are also interested in retail trade because sales taxes are an important source of revenue in most States. This article shows how Economic Census data can be used to analyze retail sales, using Montana as a case study. (When this article was written, geographic data were available only for Montana and nine other Western States, but data for most States should be available by the time of publication.)

In 1997, Montana had 5,042 retail establishments with at least one employee and those establishments together had sales of $7.78 billion. (Data for nonemployer establishments will be released later.) The largest retail sectors were automotive dealers ($2.1 billion), food and beverage stores ($1.3 billion), general merchandise stores ($1.1 billion), building materials and garden supply stores ($932 million), and gasoline service stations ($754 million). Seven other retail sectors had sales ranging between $150 million and $250 million.

High Transportation- and Building-Related Spending

Montana's retail sales per capita in 1997 were $8,853. Figure 1 compares retail sales per capita for Montana with nine other States for which data were available at the time this article was written. Retail sales in Montana were lower than in seven other Western States. Of the 10 States for which data were available, only California and New Mexico

Figure 1
Per capita retail sales for 10 States, 1997
Montana sales per capita are lower than in most neighboring States



Source: Calculated by ERS from 1997 Economic Census data.

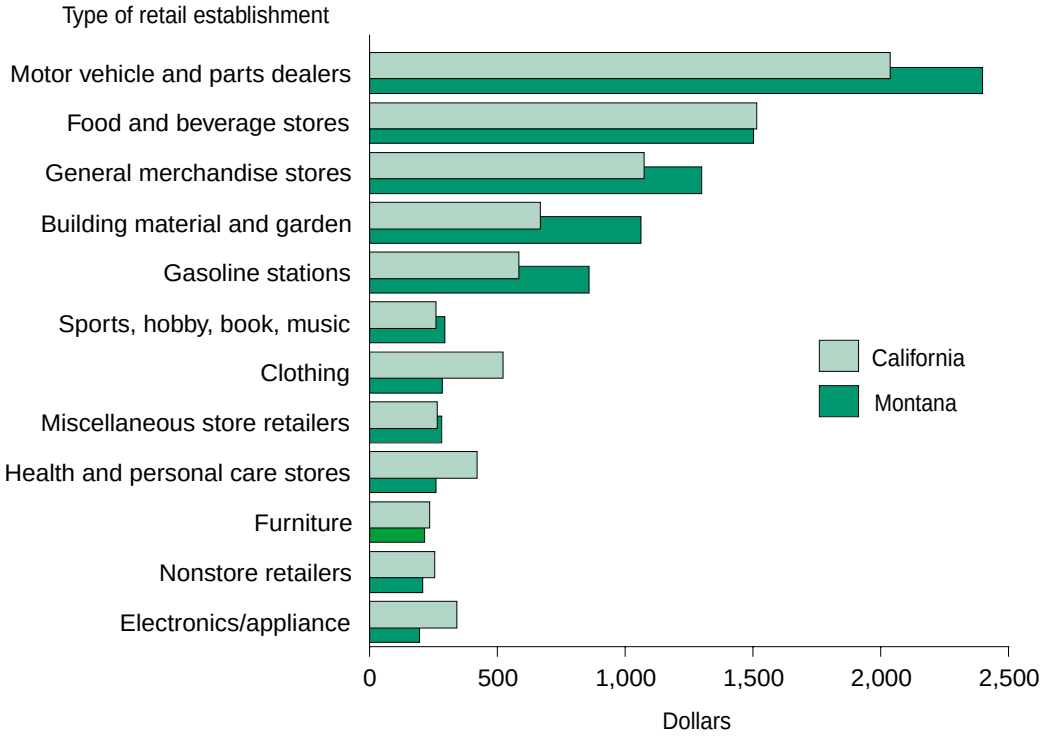
had lower sales than Montana. South Dakota's sales are clearly higher than other States. Closer inspection of the data shows that this is due to high sales by "nonstore retailers," largely due to the presence of Gateway Computers in North Sioux City, South Dakota. (When this category is excluded, per capita sales in South Dakota are similar to sales in other States.) Nevada and Colorado have per capita incomes about $7,000 higher than other States in the region and are important tourist destinations, which probably accounts for their high per capita sales. Comparing Montana and Idaho (two States with nearly identical per capita incomes) per capita sales by category shows that higher sales of motor vehicles and nonstore retailers account for the higher level of per capita retail sales in Idaho.

Comparing per capita retail sales by category between California, a largely urban State, and Montana provides insight about different retail patterns between urban and rural States (fig. 2). Montana's higher retail sales can be attributed to higher sales in motor vehicles, gasoline stations, building materials and garden supply stores, and general merchandise stores. Greater expenditures on motor vehicles and gasoline reflect the greater reliance on automobile transportation in a sparsely populated State like Montana, in comparison with California. Building and garden supplies sales may reflect greater construction, home improvements, and landscaping in Montana, which was gaining population in the mid-1990's. The greater amount of open space in Montana also may increase spending on landscaping and gardening supplies. Higher spending in general merchandise stores reflects the greater popularity of discount mass merchandisers in rural areas. In contrast, California had higher retail sales in clothing, health and personal care, and electronics and appliance stores. These reflect differences in preferences and spending on luxury items in California, where personal income is higher. Per capita spending in other types of stores was very similar between the two States.

Figure 2

Per capita retail sales by sector, Montana and California, 1997

Montana residents spent more per capita at motor vehicle dealers, gas stations, general merchandise stores, and building material and garden supply stores



Source: Calculated by ERS from 1997 Economic Census data.

Large Share of Spending Leaks From Completely Rural Counties

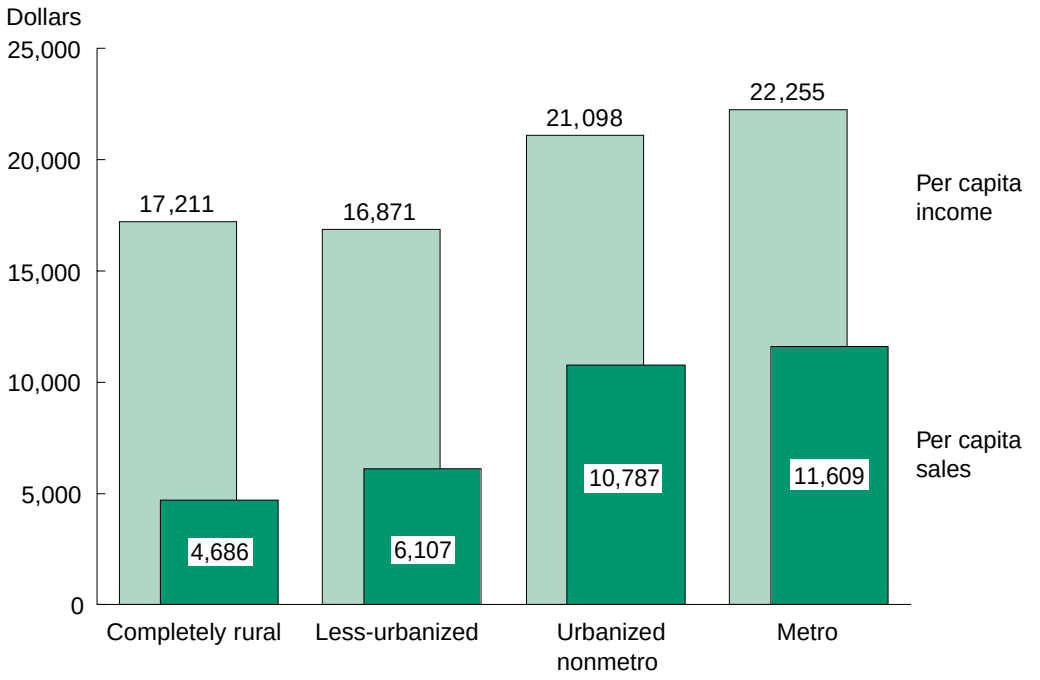
While per capita sales do not vary that much from State to State, they vary considerably across counties, since residents of small communities often cross county lines when they make shopping trips to large towns and cities. Comparing retail sales for rural and urban Montana counties makes this clear (fig. 3). Completely rural counties (with less than 2,500 people living in urban places) had per capita retail sales of $4,700 in 1997, about $4,150 under the Statewide average. Less-urbanized nonmetro counties (where between 2,500 and 10,000 people live in urban places) had per capita sales of $6,100, still considerably less than the Statewide average. Urbanized nonmetro counties (with at least 10,000 people living in urban places) had per capita sales of $10,800, and the two metropolitan counties in Montana (the Great Falls and Billings metro areas) had sales of $11,600. Higher incomes in the more urbanized counties may explain part of the difference in sales, but it seems clear that retail expenditures are "leaking" from small rural counties to more urbanized "retail trade centers." Using Statewide average per capita retail sales as an estimate of retail expenditures per person with an adjustment for differences in income, one can estimate a "pull factor" that estimates the extent to which a community captures retail expenditures of its residents. Completely rural counties capture an estimated 60 percent of their residents' retail expenditures, which means residents make 40 percent of their retail expenditures outside their county of residence. Less-urbanized nonmetro counties do better, capturing 80 percent of local retail trade. In contrast, urbanized nonmetro counties attracted per capita sales that were an estimated 15 percent greater than expenditures by their residents, while sales in metro counties were 18 percent higher than their residents' estimated expenditures.

The employment effects of these retail trade patterns are fairly small. In dollar terms, about $740 million in retail expenditures "leaked" from completely rural and less-urbanized counties, combined. Assuming one job for every $161,000 of retail sales (the State average), that translates to an equivalent of about 4,600 retail jobs. That works out to an average of 96 jobs per county lost to retail sales leakage for the 58 completely rural and less-

Figure 3

Per capita income and retail sales by Montana county type, 1997

Per capita sales are much lower in rural counties



Source: ERS analysis of 1997 Economic Census.

urbanized Montana counties. In 1997, the average retail job paid about $15,400 in Montana.

Leakage From Completely Rural Counties Seems To Have Fallen

The most interesting question is whether the rate of leakage is accelerating. Comparison with 1992 data indicates that completely rural Montana counties actually reduced their leakage between 1992 and 1997. Using the same method to estimate pull factors for 1992 yields an estimated leakage rate of 47 percent for completely rural counties, higher than the 40 percent estimated for 1997. However, for less-urbanized Montana counties the leakage rate rose slightly from 16 to 20 percent. This comparison is not entirely valid because the composition of the retail trade sector changed, due to the new North American Industrial Classification System (NAICS). The biggest change in the NAICS is the exclusion of eating and drinking places, which were included in the Standard Industrial Classification retail sector in 1992 (see box, "NAICS Excludes Food Service From Retail Sector"). However, eating and drinking places are one of the most geographically dispersed industries, so leaving this sector out should increase the rate of retail leakage. More careful analysis is needed to arrive at stronger conclusions, but it appears that rural retail is fairly stable in Montana. The situation may be quite different in other rural regions, however. Earlier research found that leakage was falling in Western rural areas, but increasing in farming areas of the Midwest and Great Plains. *[Fred Gale, 202-695-5349, fgale@ers.usda.gov]*

NAICS Excludes Food Services From Retail Sector

Food service establishments (formerly eating and drinking places, SIC 58) were a large retail sector under the Standard Industrial Classification system, but the NAICS now classifies this as a service industry. Montana food service establishments had sales of $861 million in 1997, so the sector's exclusion from the retail sector makes it difficult to compare retail figures between the NAICS and SIC classifications. Other problems are introduced by the NAICS inclusion of a small number of wholesaling establishments that sell directly to the public. These establishments were formerly classified as parts of several wholesale sectors under the SIC. Analysts cannot adjust for this change using published data, but the share of sales in these sectors is so small that the effect on most analyses will not be noticeable.